

**Achievement of Market-Friendly Initiatives and Results Program
(AMIR 2.0 Program)**

Funded By U.S. Agency for International Development

**Towards Good Governance for AMIR Program
Microfinance Partners**

Design Board Governance Manual

Final Report

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This report was prepared by Jeremy Condor in collaboration with Chemonics International Inc., prime contractor to the U.S. Agency for International Development for the AMIR Program in Jordan.

NB: This report pertains exclusively to the following Microfinance organizations:

- ?? Ahli Microfinancing Company (AMC)*
- ?? Jordan Micro Credit Company (JMCC)*
- ?? Microfund for Women (MFW)*

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Executive Summary

1. All three Boards indicate some commitment to good governance

The Boards of all three MFIs are functional at a basic level, given their capacities, backgrounds and current access to useable information on governance best practice.

2. Socio-cultural factors mitigate against good governance. AMIR's investment should bear this in mind

Middle Eastern traditions of patriarchal and authoritarian leadership mitigate powerfully against good governance. While access to best practice tools and consultancy will undoubtedly be valuable and are recommended, continuing investment in good governance practice should bear prevailing cultural constraints in mind. AMIR's investment will require a long-term view. The MEI program leadership is aware of the challenge, and responsive to it.

3. The planned Board Manuals will make a significant contribution to institutional sustainability

A plethora of best practice documentation is available to MFIs, and much of it refers to good governance. However much of this material is excessively academic, technical and detailed. Further, much of it uses complex, inaccessible language, and is so generic as to be easily dismissed by MFIs operating in the Middle Eastern context. Thus the development of a Board Manual, which is custom-designed around the realities of each of the three MFIs, is recommended. Moreover, it has been determined that the Manuals should be presented in a highly innovative format, should focus on good governance essentials, and should use direct, accessible language.

4. A time-limited investment in process and product is needed

This report confirms that the development of a good governance Manual will be an important tool for the MFIs. It underscores the need to co-develop the Manuals with the Boards and CEOs. Further, the report suggests that the Manuals should be made operational through an ongoing process of coaching and consultancy to each MFI.

5. Good governance is hard to find

In theory, the provision of access to good governance practice in comparative socio-economic environments elsewhere would be a useful governance development mechanism. This report suggests some potential MFIs that could provide opportunities to share lessons learned and demonstrate *acceptable* practice. Research conducted to date indicates that there are few examples of governance best practice in action. This observation is significant for two reasons:

a) Worldwide, best practice in action has yet to be achieved. The AMIR Program should be looking for governance practice that is good *enough*, and that is sufficiently well developed to be challenging and encouraging for its Jordanian MFI partners.

b) The level of governance development achieved so far by the Jordanian MFIs compares favorably with counterpart MFIs elsewhere.

Recommendations

1. Re Rapid Assessment

The MEI Component Leader should determine what level of ongoing investment is appropriate in each of the three MFI partners.

Suggested:

Re AMC:

AMIR could encourage the recruitment of additional Board members from a variety of professional backgrounds, (including entrepreneurs) thus facilitating a more aggressive approach to building market share.

Re JMCC:

AMIR could work directly for change at the governance level, but would be better advised to work indirectly through the parent Company. Without significant changes to Board composition and leadership, further investment may not yield significant benefits.

Re MFW:

AMIR has most to gain in the MFW's success. Current members have demonstrated genuine commitment to relaunching the Board, and this interest should be actively encouraged.

AMIR should work to encourage the General Manager to stay with the Company for another 12 months.

Given the Chair's concerns about giving up control, an ongoing supervision and support relationship for the Chair and CEO should be an AMIR priority during the governance transition. AMIR should pay close attention to the ownership transition process, and should monitor progress rigorously.

2. Re Manual Development, phase 1

Manual development should proceed, in spite of the current institutional difficulties experienced by all three MFI partners. The Manual will enable new board members to assume their role.

The Manuals will acquire relevance as part of an integrated package of coaching and TA to each organization. Thus the Component Leader should make a determination about whether AMIR should invest significant resources in the current governing bodies of these three MFIs, or whether leverage should be applied to require significant changes in membership, leadership and function before such investment.

The Manuals and their support package

Three, co-developed, co-owned custom Board Manuals should be designed around the individual realities of each Jordanian MFI partner.

In order to bridge and facilitate the use of the custom Manuals at both the executive and governance level a coaching and TA investment should be designed as a second phase on the investment.

A best practice, generic MFI Board Manual should be designed. The co-owned, co-designed production of three, customized Manuals should take precedence over the production of a generic Manual. The production of a generic Manual should be informed by the custom Manuals, and should be accorded second priority.

Manual concept

Each custom Manual should be a ‘living tool’ for the Board and the Chief Executive, and should be frequently updated by the Board Secretary. The Manual will thus assist the governing body to fulfill its responsibility according to ambitious, achievable, and measurable governance performance targets.

Characteristics of the custom Manuals

- ?? Accessible, non-technical, plain English
- ?? Strategic and practical rather than intellectual and theoretical
- ?? Focus on essentials rather than excessive detail
- ?? Focus on measurable performance enhancement
- ?? Inclusive of existing, sectorally isolated, unused or misused material
- ?? Informed by best practice
- ?? Cross cutting

Manual Presentation: A loose leaf Manual, comprised of stand-alone sections that are regularly updated as the Board develops capacity and effectiveness. Extensive use of color graphics for the generic sections.

Ring binder composition, with section dividers that would function as Manual covers, regardless of section.

Sections should be color coded and named, rather than numbered.

Every section divider/cover should bear the name of the Manual as well as the Section title. Thus, in appearance, the Manual would have no beginning, middle or end, reflecting the fact that governance is a series of interrelated, interconnected processes.

Outline content for the custom Manuals, by key issue

- ?? Condensed best practice examples for each component of the governance process
- ?? Reality orientation for each governance component (this could include examples such as a continuum indicating the current status of Board capacity)
- ?? Performance targets for each component

Each section should be divided into four parallel sections:

1. Best practice overall target
2. Current situation re the component
3. Targeted performance level re the component ('Minimum acceptable')
4. Bridging mechanism to achieve targeted performance level re the component

Re Manual Development, phase 2

An ongoing process of coaching, TA, training and study tours for both the CEOs and Board members should be designed, in order to optimize the use of the Manuals, and bridge the gap between good governance theory and practice.

1. In situ coaching to CEOs and Boards re application of the Manual
2. Virtual consultancy and coaching to Board Chairs and CEOs
3. In situ coaching to Boards in governance performance evaluation
4. Training in good governance practices

Possible timeframe for coaching input: phased over 2 years.

3. Re study tour for Board members

While the study tour concept is an excellent one, it is recommended that such an investment only be envisaged when the current Boards have demonstrated that the investment would be worthwhile.

Study Tour Options

Most interlocutors encountered in the course of research into well-governed MFIs share a similar view: there are few examples of well-governed Microfinance organizations.

The following MFIs may offer useful learning opportunities to Board members. All have been contacted with regard to a possible study tour.

Africa

CRG

Luc Lefèvre, General Director, BP 3790, Conakry, Guinea

Tel: + 224 41 35 71. Email: crg@afribone.net.gn

PADME

René Azokli, General Director, Carré 647 Cadjehoun, Rue de la Polyclinique, Les Cocotiers, 08 BP 712 tri postal, Cotonou, Benin.

Tel: + 229 30 30 47/30 20. Email: padme@bow.intnet.bj

Latin America

Banco ADEMI

Pedro Jimenez, Calle 1 # 32 La Castellana, Santo Domingo, Dominican Republic.

Tel: + 809 548 6436. Email: flia-jimenez@hotmail.com

ADOPEM (Asociacion Dominicana para el Desarrollo de la Mujer)

Heriberto Peiter, No. 12 Ensanche Naco, Santo Domingo, Dominican Republic

Tel: (809) 565-6823. Fax: (809) 547-2922. E-mail: m.canalda@codetel.net.do

Fundusz Mikro

Witold Szwajkowski, CEO. Ul. Zurawia 22, 00-515, Warszawa, Poland.

Tel: + 48 22 629 0092. Email: witold@funduszmikro.com.pl

Prodem Foundation

Fernando Romero, President. Calle Pedro Salazar, No 509 Sopocachi, La Paz, Bolivia.

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Banco Solidario Enlace

Enrique Saenz, Director, Av. Amazonas 3887 y Corea, Edificio Grupo, Quito, Ecuador.

Tel: + 59 32 262 256. Email: asaenz@uio.satnet.net

Funadeh

Ismail Oliva, Board member. Colonia El Pedregal B31, Calle 3, Boulevard Los Torres, San Pedro Sula, Honduras.

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Email 1: senad.s@max.ba Email 2: partner@partner.ba

Conclusions

The Boards do not yet provide an adequate level of governance

All three Boards operate as Steering Groups. None of them yet provide adequate levels of supervision or oversight. They lack a clear vision for the future of their organizations.

Process and product are of equal importance in building good governance

When we are asking people who operate in patriarchal, highly personalized ways to transform governance best practice theory into daily, institutionalized reality, it is important to accompany them closely. AMIR offers this possibility

Buy-in to the notion of a Good Governance Manual is mixed

All three General Managers perceive a need for a governance Manual, and have committed to supporting the process of developing custom designed Manuals for their own organization.

The Manual remains a viable project. It will have most impact as part of an ongoing support package

In spite of the lack of obvious buy-in at the governance level (AMC and JMCC), the development of customized Manuals, supported by a package of phased, time-limited TA and coaching will offer AMIR its best opportunity for a significant return on its investment in good corporate governance for its MFI partners.

Investment in a study tour for existing Board members needs to be timed carefully

While the proposal of a study tour for Board members is an excellent idea, the investment might yield higher returns when and if the existing Boards have been reinvigorated with new members and with new Chairs.

Observations re the Rapid Assessment

All three MFIs share some common governance constraints:

Key constraints

- ?? Lack of clarity as to the overall values and purpose of the organization
- ?? Dominance of both the Board and the CEO by the Chair
- ?? Compliance/subservience by other Board members
- ?? Compliant, inappropriately recruited, second-phase CEOs
- ?? Lack of clarity about the role and responsibility of the Board
- ?? Lack of guidelines or performance targets for the Board or the CEO
- ?? Lack of evaluation mechanism
- ?? Ad hoc judgments by the Board re CEO performance
- ?? Micromanagement by the Board Chair of issues of particular interest to her/him
- ?? Neglect by the Board of important issues which are of less concern to the Chair

Resulting in:

- ?? Some loss of motivation and commitment on the part of the CEOs
- ?? (Reportedly) declining staff morale in at least two organizations
- ?? Increasingly marginalized and weakened Boards

- At the management and human level:

- ?? Decline in mutual trust and confidence between CEOs and Boards
- ?? Erosion of the role of the CEO
- ?? Micromanagement
- ?? Confusion about the role of the Board
- ?? Some 'mission loss'

- At the productivity level:

- ?? Product development is stagnating (reportedly)
- ?? Staff are not reaching targets (reportedly)
- ?? MFIs are insufficiently prepared for competitive challenges and insufficiently responsive to opportunities

Thus, overall, at the institutional level:

Institutional sustainability may be compromised

Specific Observations by MFI

Re AMC

- ?? The Chair and his fellow Board members perceive the purpose of AMC as building a client base for integration into the Jordanian National Bank's client portfolio. This is not a stated aim, but is implicit in statements made by the Chair
- ?? All Board members are bankers
- ?? No stated Vision for the company is apparent. The Mission seems to be about the achievement of financial sustainability. Dominance of the market or achieving a leading role in a competitive market do not feature
- ?? Interest in the development of a Governance Manual is marginal at the Board level. The General Manager seems to be enthusiastic about the Manual concept

Re MFW

- ?? All Board members have indicated their desire to leave the Board, and have committed to a process of Board regeneration before their departure
- ?? No stated Vision for the company is apparent
- ?? All Board members have made a commitment to support the development of a custom designed Governance Manual
- ?? The Chair has little confidence in the General Manager. This opinion is echoed in the attitude of the other two Board members. The General Manager is aware of this view, and perceives a very low level of support from the Board
- ?? An ongoing question of ownership continues to concern the Board. The Chair claims that the issue will be resolved within the next three months
- ?? The Chair remains ambivalent about transitioning to a new governing Board, and ambivalent about a definitive withdrawal from the organization

Re JMCC

- ?? The Chair dominates the Board. Other Board members profess dissatisfaction in private, but make little significant contribution to debate at the governance level
- ?? No stated Vision for the company is apparent
- ?? The Acting Executive Director has adopted a compliant and passive role in the face of critical comments by the Chair
- ?? The Acting Executive Director is undermined by interference in the day-to-day management of the organization by the Chair
- ?? Nepotism at the level of the Chair is claimed to have resulted in the appointment of at least five 'corridor' staff, none of who are perceived by the General Manager to have any useful role in the Company

Methodology

The following methodology was used during the Rapid Assessment:

1. The use of a guided questionnaire on good governance perceptions (See Annex). The same questionnaire was used in confidential meetings with all three General Managers and all three Chairs
2. Assessment meetings with all three Boards
3. An assessment meeting with all three General Managers
4. Follow up meetings with two of the General Managers
5. Individual meetings with the Chair of MFW
6. Meetings and briefings with key USAID and AMIR personnel
7. Document and archive research

Next Steps

Content	Delivery date
Development of pre-draft, custom designed Manuals. The Consultant will work with the CEOs and the Boards through email in order to develop the material	May 31, 2002
Development of pre-draft, generic Manual	May 31, 2002
Manual development workshops with each MFI. The Consultant will facilitate a one-day workshop with each MFI to revisit and finalize the content of their Manuals	July 23, 2002
Finalize generic Manual	Under review
Finalize custom Manuals	Under review
Program of ongoing consultancy, training and coaching to CEOs and Chairs	Under review

Annex

AMIR Program
Board Manual Development**Confidential, Pre-Interview Questionnaire**

Your response to this questionnaire will be treated in the strictest confidence.

Name: _____

Position in the organization: _____

Please put a cross on the line indicating your response to each question

Re Capacity

1. How would you rate the Board's capacity and effectiveness in strategic planning?

0% _____ 100%

Comment _____

2. How would you rate the CEO's capacity and effectiveness in strategic planning?

0% _____ 100%

Comment _____

3. How would you rate the Board Chairperson's capacity and effectiveness in the leadership and conduct of Board meetings?

0% _____ 100%

Comment _____

4. How would you rate the Board's capacity and effectiveness in dealing with product development issues?

0% _____ 100%

Comment _____

5. How would you rate the Board's capacity and effectiveness in dealing with financial planning and control issues?

0% _____ 100%

Comment _____

6. How would you rate the Board's capacity and effectiveness in promoting the interests of the organization?

0% _____ 100%

Comment _____

7. How would you rate the Board's capacity and effectiveness in the resolution of conflict?

0% _____ 100%

Comment _____

8. How would you rate the Board's capacity and effectiveness in dealing with issues that need rapid attention?

0% _____ 100%

Comment _____

9. How would you rate the Board's capacity and effectiveness in evaluating its own performance?

0% _____ 100%

Comment _____

Re Capacity development

1. How would you rate the quality of investment in good governance development to date?

0% _____ 100%

Comment _____

2. What impact has the investment in good governance made on your MFI?

0% _____ 100%

Comment _____

3. How would you rate the quality of professional supervision and support the CEO receives from the Board?

0% _____ 100%

Comment _____

4. How would you rate the quality of the professional supervision and support the senior staff receives from the CEO?

0% _____ 100%

Comment _____

5. Do the CEO's professional development needs get the attention they merit from the Board?

No _____ Yes

Comment _____

6. Do the senior staff's development needs get the attention they merit from the CEO?

No _____ Yes

Comment _____

Re Role definition

1. Are the roles of the CEO and the Board well balanced and complementary?

No _____ Yes

Comment _____

2. Are Board members fully aware of their rights, roles and responsibilities?

No _____ Yes

Comment _____

3. Do Board members have formal task descriptions?

No _____ Yes

Comment _____

Re Board member profiles**1. Are the profiles of Board members appropriate to the needs of your MFI?**

No _____ Yes

Comment _____

Re Management & Communication**1. How would you rate the quality of the relationship between the CEO and the Chairperson?**

0% _____ 100%

Comment _____

2. How would you rate the quality of the relationship between the CEO and the senior management staff?

0%_____100%

Comment_____

Re Board servicing**1. How would you rate the quality and utility of documentation provided by the CEO to service the Board's needs?**

0%_____100%

Comment_____

Conclusion**1. Does the Board add significant value to the work of your MFI?**

No_____Yes

Comment_____

2. After reviewing your responses to the previous questions, how would you rate the governance of your MFI, overall?

0%_____100%

Comment_____

3. What changes would you initiate in order to strengthen the governance of your MFI?

4. Can the development of a Board Manual be of use to your MFI?

No _____ Yes

Comment _____

Other comments?

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